

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 FAA-00 DOTE-00 EURE-00 INRE-00

SSO-00 NSCE-00 USIE-00 CIAE-00 DODE-00 PM-03 H-01

INR-05 L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02

SS-15 TRSE-00 SAJ-01 IO-10 ACDA-05 NIC-01 CAB-02 /075 W
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O R 111733Z DEC 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 6757

INFO USMISSION USBERLIN

AMEMBASSY BERLIN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY MOSCOW

C O N F I D E N T I A L SECTION 01 OF 03 BONN 19072

E. O. 11652: GDS

TAGS: EAIR, WB, GW, US, UK, FR

SUBJECT: THE INTERNAL GERMAN SERVICES (IGS): AN
ANALYSIS - PART 2.

REF: BONN 18961

1. THERE FOLLOWS THE SECOND AND CONCLUDING PORTION OF
AN ANALYSIS OF THE IGS. THIS MATERIAL HAS BEEN CO-
ORDINATED WITH THE BRITISH CAA.

2. BA'S AND PAA'S PENDING FARES APPLICATION. THE TWO
AIRLINES SUBMITTED APPLICATIONS DURING OCTOBER FOR
INCREASES IN PASSENGER FARES AND CARGO RATES ON THE IGS.
A COMPARISON OF THE APPLICATIONS SHOWS THAT:

A. THE LEVEL OF PROPOSED PASSENGER FARES FOR
EACH SERVICE IS THE SAME FOR BOTH AIRLINES, I.E., AN
AVERAGE OF ABOUT 6 1/2 TO 7 PERCENT ON GROSS FARES OR
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7.9 PERCENT TO THE PASSENGER.

B. THE PROPOSED CARGO RATES ARE ALSO THE SAME FOR BOTH AIRLINES, I.E., ABOUT 7 1/2 PERCENT ABOVE CURRENT RATES.

THE FOLLOWING POINTS EMERGE FROM THE CASES PRESENTED BY THE TWO AIRLINES:

A. THE BA'S JUSTIFICATION FOR THE PRESENT INCREASE IS BASED ENTIRELY UPON INCREASED FUEL COSTS INCURRED DURING 1974 AND HAS BEEN SUBMITTED IN THE FORM OF AN APPLICATION FOR FUEL SURCHARGE.

B. THE PAA CASE IS BASED MAINLY UPON INCREASED FUEL COSTS INCURRED DURING 1974, AND FORECAST INTO 1975, BUT ALSO INCLUDES ELEMENTS FOR OTHER COSTS. NO INDICATION HAS BEEN GIVEN OF THE NEED FOR A FURTHER FARE INCREASE IN 1975.

BECAUSE IT IS BASED SOLELY ON ADDITIONAL FUEL COSTS, THE BA CASE DOES NOT CONTAIN DETAILED BREAK-

DOWN OF ACTUAL AND FORECAST OPERATING REVENUES AND EXPENDITURES AS PAA'S DOES. BA HAS CALCULATED THE AMOUNT OF ITS 1974 FUEL BILL UNCOVERED BY ITS ADDITIONAL REVENUE FROM THE JUNE 1974 FUEL SURCHARGE. BA HAS THEN EXPRESSED THIS AMOUNT AS A PERCENTAGE INCREASE OF ITS ESTIMATED 1975 REVENUE SHOWING THAT A 6.6 PERCENT INCREASE IN THAT REVENUE WILL BE NECESSARY TO COVER THEIR OUTSTANDING 1974 FUEL COSTS. A FURTHER FARE INCREASE FOR BA IN THE SPRING OF 1975 WOULD, THEREFORE, BE NECESSARY IN ORDER TO RECOUP THE INCREASES IN OPERATING COSTS, MAINLY IN FUEL, FORECAST FOR 1975.

PAN AM'S JUSTIFICATION, ON THE OTHER HAND, PROVIDES TWO ESTIMATED REVENUE FIGURES FOR CALENDAR YEAR 1975 -- ONE ASSUMING NO FARE INCREASE AND THE OTHER TAKING INTO ACCOUNT THE 6.6 PERCENT FARE INCREASE. THE APPLICATION FURTHER PROVIDES A DETAILED BREAKDOWN OF OPERATING EXPENSES UNDER BOTH ASSUMPTIONS WHICH CAN

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THEN BE NETTED AGAINST THE ESTIMATED REVENUE TOTALS TO YIELD OPERATING PROFITS. IT IS NOT POSSIBLE, HOWEVER, TO ISOLATE PAA'S FUEL COSTS FROM THE EXPENSE DATA IN SUCH A WAY THAT A DIRECT COMPARISON WITH THE DATA PROVIDED BY BA CAN BE MADE. IT HAS, HOWEVER, PROVED POSSIBLE BY USING PAA'S SUMMARY TABLE OF IGS SCHEDULED SERVICE OPERATING RESULTS, TOGETHER WITH ADDITIONAL DATA PROVIDED BY BA ON REVENUES AND COSTS, TO DEVELOP

THE FOLLOWING TABLE COMPARING SEAT LOAD FACTORS,
OPERATING REVENUES, EXPENDITURES AND RESULTS OVER THE
PERIOD 1972 TO 1975.

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C O N F I D E N T I A L SECTION 02 OF 03 BONN 19072

SEAT LOAD FACTORS
(IN PERCENT)

	1) 1972	(2) 1973	(3) 1974	1975	1975
BA	49.5	49.6	49.9	53	--
PAA	60.4	56.1	56.5	59.0	57.5

NOTES: 1. PARTLY ESTIMATED. 2. ESTIMATED (PAA
UNDER CURRENT FARES). 3. PAA ESTIMATED

UNDER PROPOSED FARES.

OPERATING RESULTS 1972-75

(US DOLLAR (000))

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		(1)	(2)		
	1972	1973	1974	1975	
REVENUE:					
BA	47,234	51,467	53,935	50,878	
PAA	72,547	77,437	88,817	94,164	

EXPENSES:					
BA	49,982	53,226	58,204	57,056	
PAA	66,357	70,196	83,213	91,341	

PROFIT/LOSS:					
BA	-2,748	-1,759	-4,269	-6,178	
PAA	6,190	7,241	5604	2,823	

(OPERATING RESULTS 1972-75 CONT.)

PERCENT OF					
REVENUE:					
BA	- 5.8	- 3.4	- 7.9	- 12.L	
PAA	-8.5	9.4	6.3	3.0	

NOTES: 1. PARTLY ESTIMATED. 2. EST UNDER PRESENT FARES
 3. EXCHANGE RATES: 1 POUND STERLING EQUALS
 1972 - \$2.5; 1973 - \$2.45; 1974 - \$2.36;
 1975 - \$2.3.

IN ADDITION, A DETAILED BREAKDOWN OF THE OPERATING EXPENDITURES OF BOTH AIRLINES HAS BEEN MADE. THIS HAS BEEN COMPILED FROM DATA SUBMITTED IN PAST AND PRESENT FARE INCREASE APPLICATIONS. THE TABLE BELOW SHOWS THE INDIVIDUAL AND IGS TOTAL COSTS CONCERNED UNDER VARIOUS OPERATING CATEGORIES. THESE CATEGORIES ARE THOSE WHICH HAVE BEEN USED IN PREVIOUS PRESENTATIONS TO THE BERLIN CIVIL AIR TRANSPORT ADVISORY GROUP. WHILE THE TOTAL COSTS CONFORM TO DATA PROVIDED BY THE AIRLINES, THE ALLOCATION OF DETAILED ITEMS OF EXPENDITURE TO THE COST CATEGORIES IS TO SOME EXTENT ARBITRARY BECAUSE OF DIFFERENCES IN THE ACCOUNTING PROCEDURES OF THE AIRLINES. THE TABLE SHOULD, THEREFORE, BE CONSIDERED AS ILLUSTRATIVE OF COST TRENDS RATHER THAN ACTUAL AIRLINE

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COST ACCOUNTING.

IGS OPERATING COSTS ALLOCATION 1972-1975
(US \$600)

IGS			
BA	PAA	TOTAL	
FLYING OPERATIONS:			
1972	24,013	16,522	40,535
19 73	22,689	17,414	40,103
1974	26,956	23,988	50,944
1975	27,147	30,353	57,500

MAINTENANCE:			
1972	8,807	6,091	14,898

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1973	8,950	6,880	15,830
1974	9,046	8,097	17,143
1975	7,684	7,414	15,098

PASSENGER SERVICE:

1972	611	3,484	4,095
1973	326	3,429	3,755
1974	288	3,460	3,748
1975	269	3,689	3,958

AIRCRAFT AND

TRAFFIC SERVICING:

1972	7,650	19,383	27,033
1973	9,200	23,574	32,774
1974	10,750	24,691	35,441
1975	10,934	27,472	38,406

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PROMOTION AND

SALES:

1972	5,103	11,035	16,138
1973	6,556	9,409	15,958
1974	6,058	10,792	16,850
1975	5,688	11,602	17,290

GENERAL AND

ADMINISTRATIVE:

1972	2,280	3,108	5,388
1973	2,511	3,967	6,478
1974	2,124	4,648	6,772
1975	1,927	4,757	6,684

OTHER:

1972	1,518	6,734	8,252
1973	2,112	5,523	7,635
1974	2,938	7,434	10,372
1975	3,406	6,054	9,460

TOTAL:

1972	49,982	66,357	116,339
1973	53,226	70,196	123,422
1974	58,204	83,100	141,304
1975	57,056	91,341	148,397

NOTE: 1. 1974 FIGURES PARTLY ESTIMATED.

2. 1975 FIGURESEST UNDER PRESENT SENT FARES.

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